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Canada Mortgage
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CMHC and the National Housing Act



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Canada

CMHC and the National Housing Act

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**Canada Mortgage
and Housing Corporation**

**Honourable Paul Cosgrove
Minister**

**Société canadienne
d'hypothèques et de logement**

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INTRODUCTION

Although there was some federal involvement in housing during and immediately following World War I, it was not until 1935 that national legislation on a continuing basis was introduced in Canada with passage of the Dominion Housing Act. This legislation and its successor — the National Housing Act 1938 — were intended to stimulate housing production and employment opportunities during the Depression years. The economic benefits to the nation were also a major consideration in a supplementary piece of federal legislation, the Home Improvement Loans Guarantee Act of 1937.

Activity generated by the various new forms of federal housing aid initiated through these measures were modest in comparison with today's high production levels. But all were to become important elements of the National Housing Act 1944, formulated by the government to help meet a massive housing requirement facing Canada at the end of World War II.

CANADA'S HOUSING PROGRESS

The original purpose of the National Housing Act 1944 was to improve housing and living conditions for Canadians and, as a corollary, to stimulate employment in the years following World War II.

Since then, the NHA has been amended many times in response to social and economic changes within the country. Its general objectives have been twofold: to assist the private market in producing enough affordable housing to meet the needs of most Canadians and to provide housing assistance for people whose needs cannot be met through the private market.

When the NHA was introduced in 1944, few could have foreseen the doubling of Canada's population over the next 35 years, or the problems that would arise in providing adequate housing and community services in urban areas that were undergoing explosive growth.

Meeting these challenges has required the combined resources of industry, labour, the financial community and, in one way or another, every government in the country.

A key element in this continuing task has been Central (now Canada) Mortgage and Housing Corporation, which began operations at the beginning of 1946 as Canada's national housing agency. Since that time, it has been an integral part of the nation's housing and community development.

Canada's housing progress during the past 35 years has been impressive:

- Of the country's present total housing stock of approximately eight million dwellings, more than five million have been built since the end of World War II.
- Half of this new production has been financed under the NHA – 1.6 million with private lender funds and 840 000 with direct CMHC loans.
- Over 535 000 rental and homeownership units have been provided for lower - and modest-income Canadians through federal loans and subsidies available from CMHC.
- NHA loans and grants have financed the rehabilitation of more than 90 000 dwellings.
- In over 1 500 communities, NHA assistance has been used to upgrade infrastructure systems like water and sewer facilities, to improve lower-income neighbourhoods and to develop land for residential construction.
- In recent years, federal grants have helped improve the insulation of 700 000 older homes to conserve energy.

The following brief history is intended to show the general development of Canada's housing legislation, as administered by CMHC, and its application over the years to social housing, the mortgage market and the community as a whole.

BUILDING AN INDUSTRY

From 1940 onward, Canadians faced a serious housing shortage. Housing production had dropped to extremely low levels during the Depression. It was curtailed further during the war as the major thrust of virtually all Canadian industry turned toward wartime production. Building materials for residential use were scarce; the rate of marriages had increased; cities swelled with the influx of war workers; rent controls had been imposed.

By 1944, it was evident that demobilization would severely aggravate the housing shortage and there was grave concern about the possibility of widespread post-war unemployment. Resettling veterans, returning in the tens of thousands from the various theatres of war, would obviously be a post-war priority that could create problems of massive dimensions.

A lot of housing would have to be built very quickly. At that time, however, no large-scale residential building industry existed in Canada to produce the required housing. Individual builders were too small to undertake the risk of producing houses in volume and then putting them up for sale.

As the first step in dealing with the problem of post-war housing needs, the federal Parliament passed the National Housing Act 1944. Its purpose was to encourage housing production, improve housing and living conditions, stimulate employment and assist Canadians — veterans in particular — to acquire homes.

The government decided that a Crown corporation — a quasi-commercial type of agency that had been widely employed during the war to meet emergency production needs — could best deal with the task of administering the new Act. Following passage of the necessary legislation, on January 1, 1946, Central Mortgage and Housing Corporation came into being. It was to be the chief federal mechanism for getting residential production moving again, for restoring the confidence of the private sector and for promoting Canada-wide housing standards.

The initial hesitancy on the part of private mortgage lenders and builders to become involved in a substantial housing program was understandable. Mortgage defaults had been widespread during the recent Depression. Lack of maintenance was general and, as a result, many houses had fallen into disrepair. Private lenders were wary of engaging in mortgage activity while economic uncertainties persisted. Private builders readily folded up at times of economic stress. Planning and building standards were either non-existent or unsatisfactory.

This was the troubled housing picture when the new federal agency, CMHC, entered the field in 1946.

The government faced two immediate challenges. The first called for the launching of a massive direct construction program to provide modestly priced rental housing in scores of communities for ex-service personnel and their families. So successful was this undertaking that, in just three years, CMHC had become Canada's biggest landlord, administering a stock of more than 40 000 dwellings. About half were built by the Corporation; the rest were former rental units for war workers which were turned over to CMHC for management. Later, the veterans were given the opportunity to buy their homes under attractive purchase arrangements.



Subdivisions of veterans' housing mushroomed in nearly every municipality in the early post-war years.

The other federal concern was to act as a catalyst for the development of a private building industry capable of serving the housing market in general.

The Corporation employed a variety of techniques to give a necessary measure of support and confidence to the many builders who were just entering the field with not much more than a little skill and a few tools. These included mortgage loans made jointly by CMHC and the private lenders, “buy-back” guarantees to builders for newly built houses that might not be sold, rental guarantees that ensured entrepreneurs of a minimum return on their investment in the production of low-rental housing, and even the allocation of building materials like cement and nails which were periodically in short supply during the early post-war years.

In a remarkably short time, this support led to a thriving speculative building industry and a succession of annual housing production records for Canada.

The initial problem of an adequate housing supply for immediate needs was met within a few years and subsequent history is marked by a series of federal policy milestones that reflect social and economic needs during specific periods.

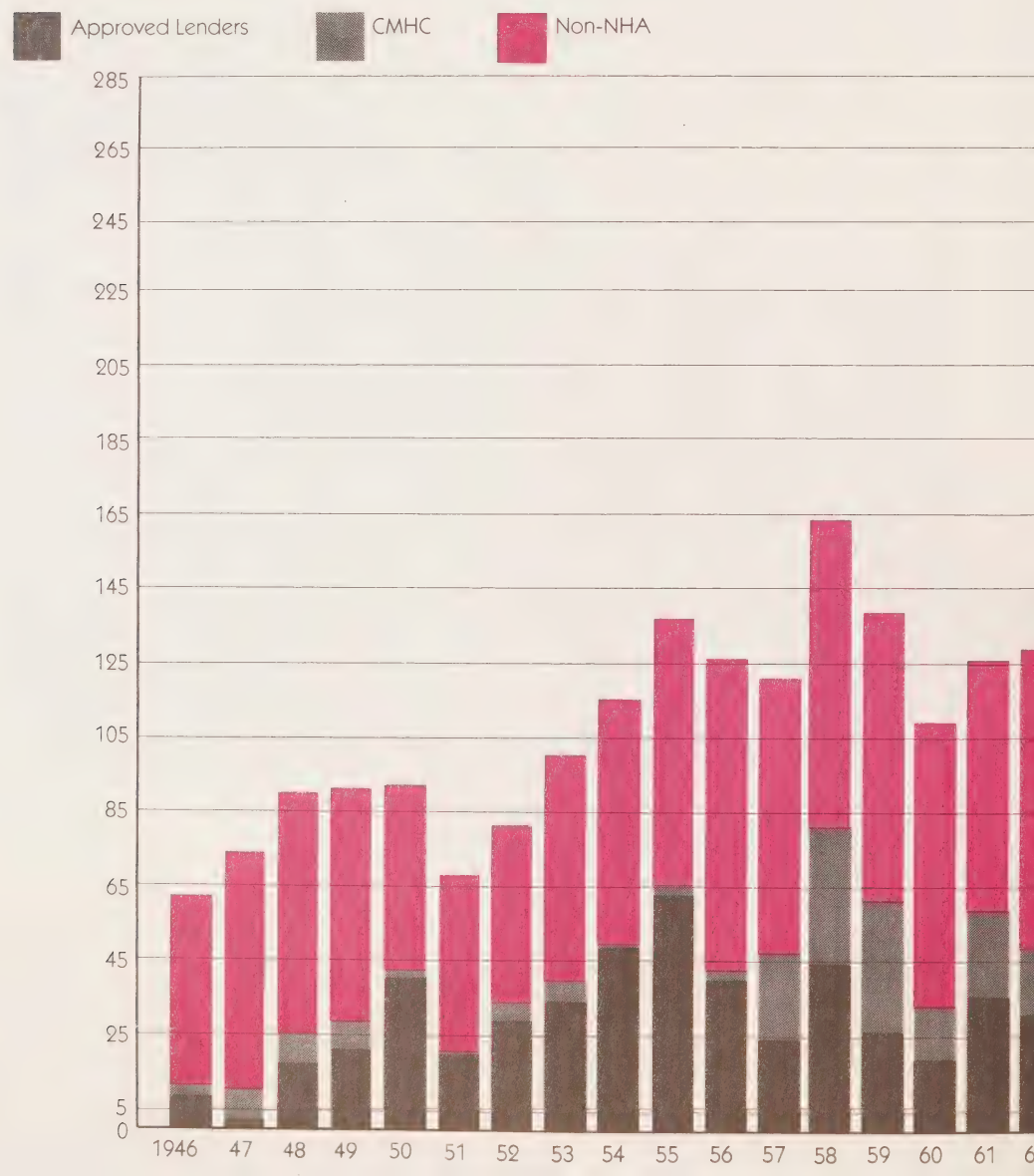
The first major change came in 1949. Although housing production in general was growing each year, far too few of the units were available to those in the lowest-income categories. In response, the Act was broadened by Parliament in 1949 to introduce the concept of public housing — the provision of publicly owned developments in which subsidies provided by the federal and provincial governments allowed rents to be scaled according to tenant incomes.

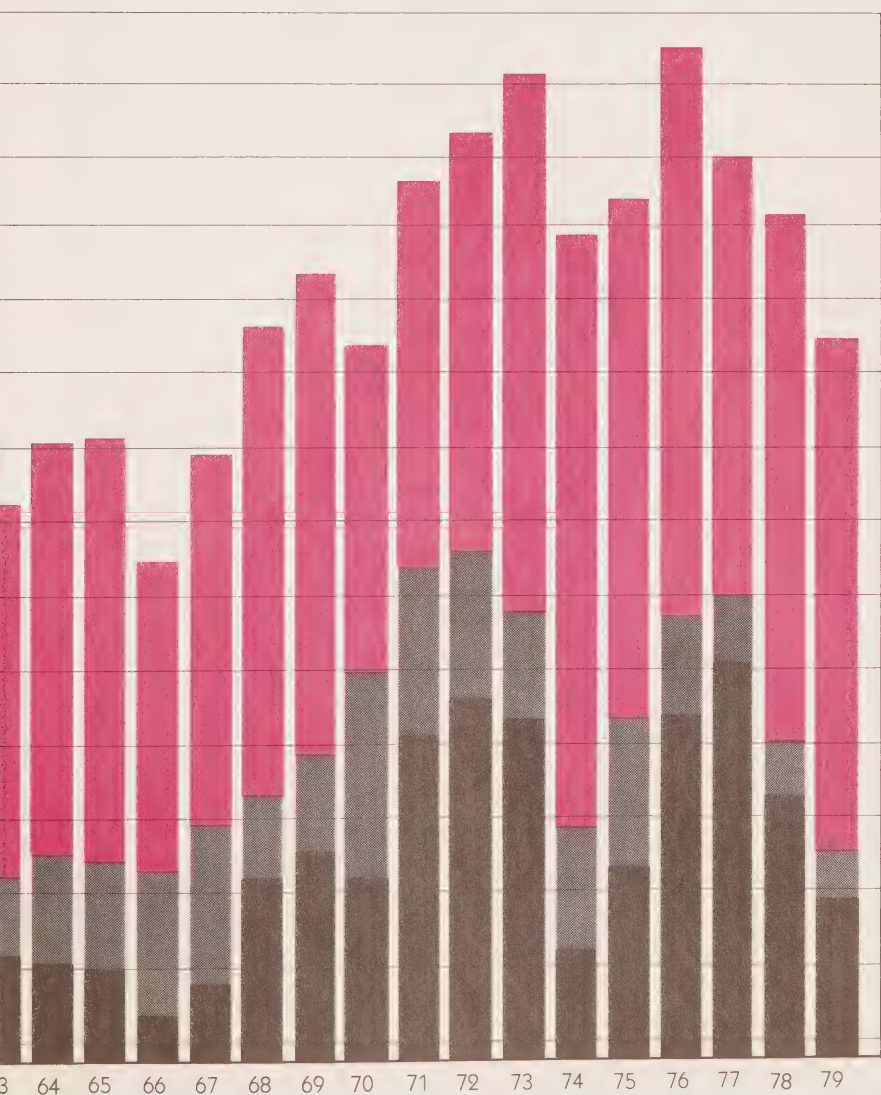


Slum housing is cleared to make way for Toronto's Regent Park South development built under joint federal-provincial arrangements.

DWELLING STARTS BY PRINCIPAL SOURCE OF FINANCING, CANADA, 1946-79

(000 dwelling units)





CMHC became responsible for the design and construction of the projects to be carried out under these new arrangements. Efforts were made to introduce new design and construction technologies, notably medium-density housing, through this direct means of influence.

The shared-cost, federal-provincial arrangements authorized by the 1949 amendments to the Act were also applied to land assembly projects to increase the supply of reasonably priced, serviced building lots for housing.

The second significant milestone in CMHC's participation in housing was reached in 1954 when a system of mortgage insurance for private lenders was introduced to ensure a continuing supply of mortgage capital for housing construction.

The immense support of the private lenders in the steadily increasing housing production of the previous half dozen years had been made possible through the conversion of large amounts of their existing assets into mortgages. Under the NHA arrangements then in effect, the lenders' future housing commitments would have to be limited to newly acquired funds.

Obviously, if private money was to continue to provide the bulk of the mortgage assistance needed in Canada, a new basis was imperative to draw funds to housing from new and untapped sources.

It was this set of circumstances that led to the fashioning of the National Housing Act 1954 which established the mortgage arrangements still in effect today. In place of the former joint lending arrangements, Parliament instituted a system of loan insurance under which loans were advanced entirely

by the private lenders who were guaranteed against loss in the event of borrower default through CMHC's operation of a Mortgage Insurance Fund. This made NHA mortgages a fully secured investment and an attractive alternative to long-term bonds. Loan insurance opened mortgage investment opportunities to a broad range of new sources, including pension funds. Individuals were able to participate providing the mortgages involved continued to be administered by an approved lender.

In 1954, as well, the Bank Act was amended in a complementary fashion to allow Canada's chartered banks to make mortgage loans for the first time.

The response of the private lenders, and in particular the banks, to these new arrangements pushed housing production to unprecedented levels. In 1955, housing starts reached 138 276. The completion of Canada's millionth post-war home was marked in 1956.

This surge of activity had a major impact on the operations of CMHC. As the banks had no previous experience in mortgage lending, the Corporation's responsibilities in providing appraisal and other administrative support services were greatly expanded. CMHC's inspection staff was also reinforced to ensure that all the new housing financed under the NHA was being constructed in accordance with a comprehensive range of building standards developed over the post-war years.

The strong emphasis which the 1954 initiatives placed on the participation of private investment was to continue as a fundamental aspect of most of CMHC's later roles in housing.

HOUSING AND THE COMMUNITY

By 1955, the Corporation had an extensive network of field offices across the country, with a regular statistical reporting system. It had come to occupy a firm place in Canada's housing market.

Internally, it had become a highly sophisticated operation, with staff skills ranging from architecture and planning to building technology and economic research. Corporation staff was able to devote attention to improving design and promoting technological innovation, using the wide powers given to it under Part V of the NHA.

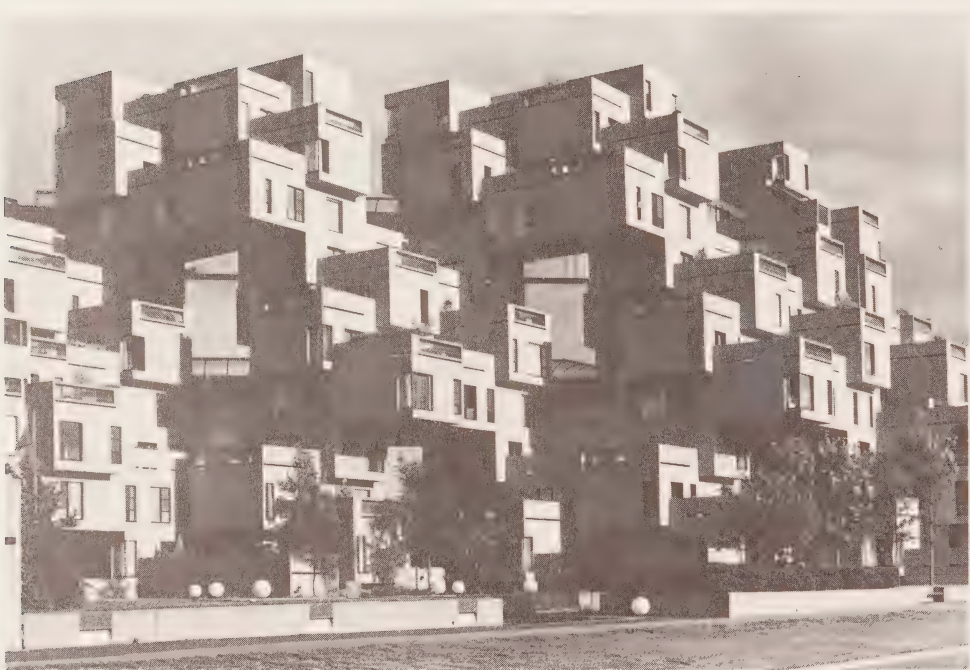
As part of these endeavours, funds were made available to a number of Canadian universities for the introduction of courses in architecture, community planning and other areas of specialization associated with urban development. Students were encouraged to enter these fields through the launching of an annual program of CMHC-funded scholarships and bursaries which has continued to the present.

As the 50s progressed and the whole community, rather than individual houses, became the focus of the federal housing drive, Part V funds were made available for urban renewal studies. About 200 were undertaken across Canada between 1955 and 1963. The original purpose of these studies was to identify debilitated areas of Canadian cities where public housing or redevelopment actions should start. In later years, federal involvement in the community was extended to provide NHA assistance for sewage and water services, neighbourhood improvement and the provision of social amenities.

During this period, the provincial governments had become more active in housing and community planning. In 1964, further NHA amendments responded to this trend with new and, to most provinces, more satisfactory arrangements for the financing of public housing as well as for a wider range of urban renewal projects. Provincial participation under these broadened programs became the responsibility of newly established provincial housing corporations — many of them with former CMHC staff members to provide a core of experience.

The 1964 amendments to the Act also widened the opportunities for private participation in the provision of housing to meet the needs of those in the lower-income categories. Special new assistance in the form of high-ratio loans and subsidies was made available both to non-profit housing organizations and the sponsors of co-operative housing developments.

By 1967, housing had become an issue of national importance in Canada. For the first time, it was the subject of a conference called by the Prime Minister. CMHC was becoming increasingly recognized as a vehicle for implementing social as well as economic policy. Housing and urban issues were very much in the news. Among the most notable housing accomplishments, which attracted world attention, was the completion of architect Moshe Safdie's futuristic "Habitat" development built with CMHC financial support as part of Expo '67.



Habitat '67, supported by CMHC funds, transformed architect Moshe Safdie's futuristic housing concept into reality.

EMPHASIS ON LOW-INCOME HOUSING

For the next few years, three major themes dominated housing policy. First was the need to overcome the deficiencies of private market mechanisms in meeting the housing needs of lower-income families and individuals. Next was the need to promote the “managed growth” of expanding urban areas. Third was the need to involve the community in the provision of housing and in improving urban areas.

Between 1968 and 1972, several “task force” studies on housing were carried out and led to substantial changes in the direction of federal housing policy.

Housing starts in 1969 surged by the 200 000-unit mark for the first time, reflecting the strength of demand generated in large part by the baby boom of the immediate post-war years. Despite this high production level, more and more Canadians were finding it difficult to obtain suitable accommodation at affordable prices. Much of the housing serving middle- and higher-income families up to 1969 was financed with direct federal funds available through CMHC. From that year onward, however, the main thrust of federal housing support was redirected to assist people in the lower-income brackets.

With housing costs rising rapidly and a tight rental market in most urban areas, the federal government’s overall policy was to “bridge the inflationary gap” with public funds available through CMHC. An important part of these efforts was the launching of an innovative housing program to test new design and subsidized mortgage loan arrangements that would give low- and moderate-income families greater access to affordable housing.

Maximum house prices were established for qualification under the program and subsidy assistance was adjusted to keep monthly payments within 25 per cent of family income.

Federal assistance, including high-ratio loans and a “write-down” of interest charges, was also offered to private entrepreneurs to help them make rental accommodation available at prices substantially below normal market charges.

These initial experimental programs led to the introduction of a series of new programs based on this experience, with the assistance available being adjusted to current needs.

In 1974, a comprehensive Rural and Native Housing Program was also initiated by the government to help provide or improve 50 000 dwellings over a five-year period.

The importance of conservation measures was recognized as well, through programs to assist in the improvement of neighbourhoods and the extensive rehabilitation of housing in the core areas of cities.

The early 1970s were characterized by a highly volatile housing market in virtually every urban area. Vacancy rates were low and the effective demand for housing was high based on rapidly rising incomes.

The result was a sharp acceleration in house prices and an increase in the demand for federal funds under CMHC’s Assisted Home Ownership and rental housing programs. When the pressures on federal funds became insupportable, the programs were altered to allow the option of private or CMHC mortgage financing with the provision of the federal subsidy through CMHC. In 1975, a federal incentive of \$1 000 per unit was offered to municipalities to encourage their approval of modestly priced housing.

During the next two years, the housing market became more stable, with price rises moderating considerably.

A NEW APPROACH TO HOUSING NEEDS

By mid-1977, economic pressures produced a need for restraint in all federal expenditures. The housing market itself was changing as inventories grew and demand declined. At the government's request, a review of CMHC programs was undertaken and a series of measures developed to make the greatest possible use of private capital for mortgage lending. Public funds were conserved primarily for outright subsidies for low-rental housing and for housing rehabilitation.

The government replaced the subsidy programs for home buyers and rental entrepreneurs with a new mortgage arrangement for private financing that made repayments easier during the first few difficult years of a loan.

Substantial changes were made in CMHC's social housing programs as well. The new approach provided mortgage insurance to private lenders making loans equal to the full value of developments undertaken by public or non-profit agencies and co-operative groups at normal market interest rates. For its part, the government undertook to provide the sponsors of such projects with enriched, continuing subsidies that made the units accessible to both moderate- and low-income families.

Amendments to the NHA, approved by Parliament in 1979, marked a major revision, too, in the nature of federal housing aid to the provinces. They were given far greater discretion in determining the priorities to which federal financial contributions should be directed.

THE DECADE AHEAD

The 1980s will be marked by a diminishing overall requirement for new housing with starts dropping to an anticipated annual level of around 165 000 by 1989 — about 100 000 fewer units than were started in the peak production year 1976.

The decline may be concentrated almost entirely in the rental housing sector where starts could drop to a quarter of their current numbers.

The reduced activity will reflect a number of significant demographic factors. Some moderation in demand will stem from an expected population growth rate of only about one per cent per year during the period.

Changes in the age structure of the population as a whole will tend to sustain the demand for homeownership housing and reduce sharply the rental accommodation requirement. Historically, more than 70 per cent of Canadians in the age group between 35 and 44 have become homeowners. During the 80s this segment of the population will grow by an estimated 1.2 million, of whom 810 000 may move from rental housing to ownership. Based on past mobility trends, another 2.2 million can be expected to purchase their second or third house.

By 1989, however, there will be some 971 000 fewer Canadians under 25 years of age, a section of the population whose limited savings and desire for mobility have made it a major demand source for rental accommodation over the years. To some extent, their reduced requirements will be offset by an estimated growth of 603 000 in the number of senior citizens, many of whom will seek the lower cost, extra services and maintenance-free advantages of rental housing.



Demand for senior citizen accommodation will increase sharply during the 80s.

With a national production capability far in excess of that necessary to meet housing requirements during the new decade, the prime residential challenge facing Canada in the 80s will be in matching housing output to the full spectrum of demand.

Despite the impressive achievements of the past 35 years, a substantial deficit still exists in the amount of affordable rental and homeownership housing available to those of low and moderate incomes. Specialized accommodation will be required in greater volumes for the handicapped and for the elderly, who will form an ever-increasing segment of the nation's population throughout the 80s. Increasing fuel and transportation costs will call for the production of more energy-efficient housing and more emphasis on the effective use of space within already developed areas. The largest challenge may lie in the increasing need for the rehabilitation of the existing housing stock as much of it reaches an age where major improvements and modernization will be required.

Current programs focusing on these and other major housing considerations form an essential part of CMHC's continuing general commitment to the search for new ways of creating housing and housing forms, new ways of using and servicing land, new ways of approaching the planning process, and new ways of dealing with social, economic, physical and technical problems associated with housing and the communities in which people live.

COMPLETIONS PER 1 000 POPULATION, 1949-77

This chart compares Canada's level of housing unit completions per 1 000 population from 1949 to 1977 to the completions in the United States, the United Kingdom, France and Italy during the same period.

